



Inflation Report

2nd Quarter, 2015



Monetary Policy and Financial Stability Department
Saudi Arabian Monetary Agency



Cost of Living Index

The general cost of living index registered an annual increase of 2.2% in June 2015, as compared to a monthly rise of 0.3%. It recorded an annual increase of 2.1% in Q2, against a quarterly rise of 0.6% (Table 1 and Chart 1).

Developments in Q2 2015

The general cost of living index rose by 0.6% q/q and advanced by 2.1% y/y in Q2.

Housing, water, electricity, gas and other fuels group posted the highest q/q inflation rate in Q2, registering a quarterly inflation rate of 1.6%. Clothing and footwear group came second with 1.2%; health group with 0.7%; tobacco group

with 0.6%; transportation and telecommunication groups with 0.5% each; furnishings, household equipment and maintenance group with 0.4%; and miscellaneous goods and services group with 0.2%. (Table 1 and Chart 2).

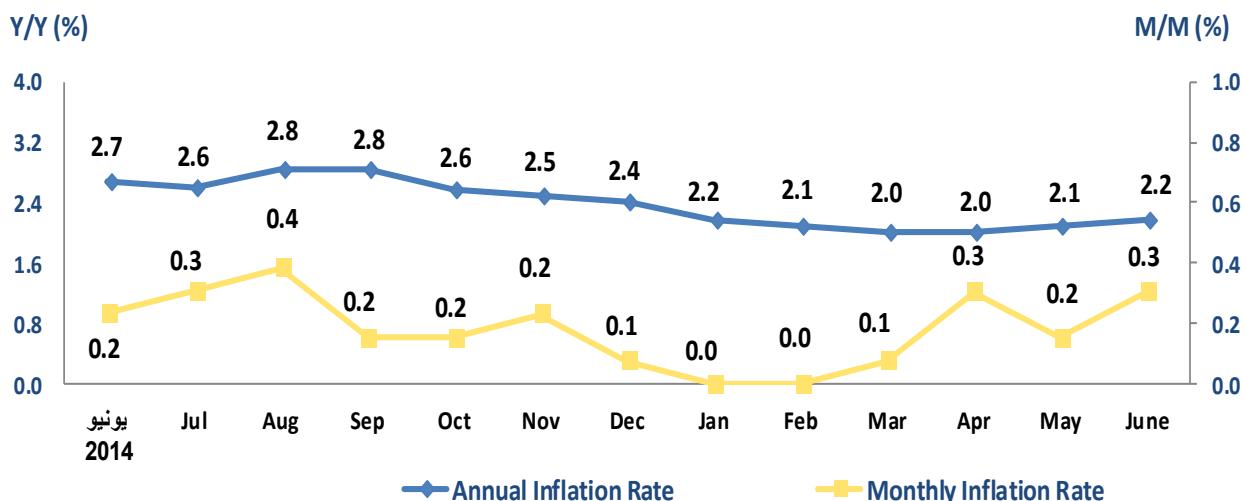
In contrast, restaurants and hotels group recorded the highest quarterly deflation rate of 0.8% y/y in Q2. Recreation and culture group came second with 0.4%, followed by food and beverages group with 0.1%. (Table 1 and Chart 2).

Education group, however, remained unchanged in Q2.

Influence of Major Groups on the General Cost of Living Index

The general cost of living index is affected relatively by the changes taking

Chart 1: Inflation Rate of the General Cost of Living Index
(2007=100)



Source: Central Department of Statistics and Information.

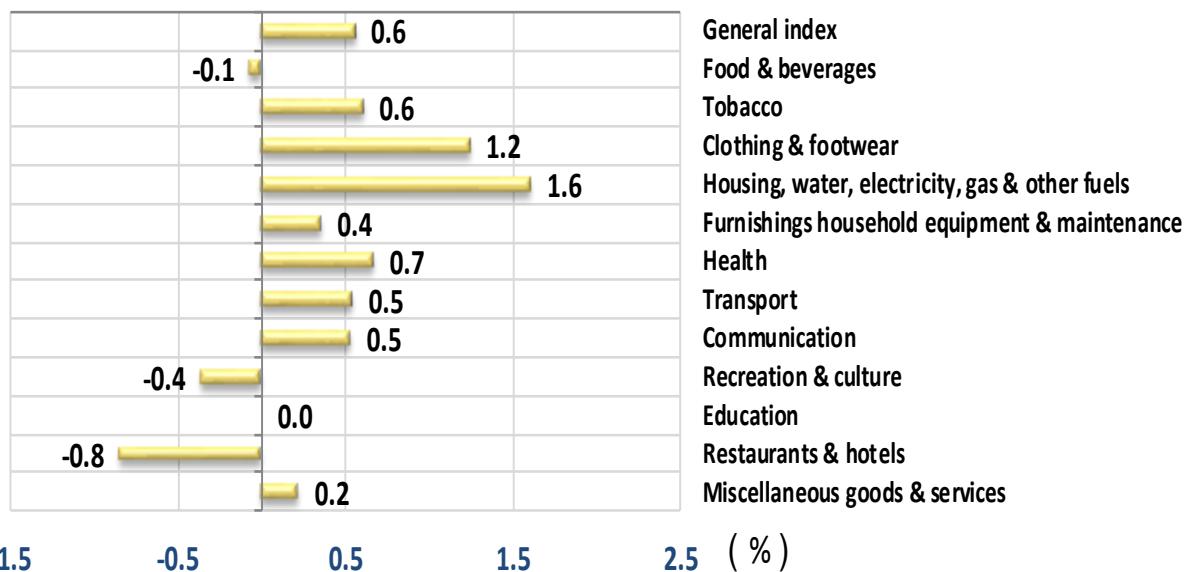


TABLE 1: COST OF LIVING INDEX
(2007=100)

	Weights	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	(% change)	
							Q2 2015/ Q1 2015	Q2 2015/ Q2 2014
General index	100.0	129.6	130.6	131.3	131.5	132.3	0.6	2.1
Food & beverages	21.7	143.8	145.1	147.8	146.2	146.1	-0.1	1.6
Tobacco	0.5	161.6	162.8	163.5	164.8	165.8	0.6	2.6
Clothing & footwear	8.4	104.9	105.7	106.4	107.3	108.6	1.2	3.5
Housing, water, electricity, gas & other fuels	20.5	159.4	159.7	159.7	161.7	164.3	1.6	3.1
Furnishings, household equipment & maintenance	9.1	127.2	128.4	130.2	130.7	131.2	0.4	3.1
Health	2.6	112.0	113.1	113.9	114.5	115.3	0.7	2.9
Transport	10.4	110.4	110.8	110.9	110.3	110.9	0.5	0.5
Communication	8.1	93.5	93.9	93.7	93.9	94.4	0.5	1.0
Recreation & culture	3.5	110.8	117.7	118.3	119.3	118.8	-0.4	7.2
Education	2.7	115.7	115.7	116.3	116.3	116.3	0.0	0.5
Restaurants & hotels	5.7	129.9	130.0	129.5	129.6	128.5	-0.8	-1.1
Miscellaneous goods & services	6.8	120.0	121.5	120.8	120.4	120.7	0.2	0.6

Source: Central Department of Statistics and Information.

Chart 2: Inflation Rate of the Cost of Living Index by Main Groups
(Q2 2015/Q1 2015)*



* Latest Available Data

Source: Central Department of Statistics and Information.



place in its various groups. In terms of the influence rates on the cost of living index, housing, water, electricity, gas and other fuels group ranked first with 48.6% in Q2 compared to 37.7% during the corresponding quarter. Clothing and footwear group ranked second with an influence rate of 15.4% compared to 1.8% during the corresponding quarter, and transportation group with an influence rate of 8.3% compared to 13.8% during the corresponding quarter. Restaurants and hotels group came next with an influence rate of 7.1% compared to 6.4% during the corresponding quarter and communication group with an influence rate of 6.4%.

The total influence rate of the three major groups (housing, water, electricity,

gas and other fuels; clothing and footwear; and transportation groups) stood at 72.3% in Q2 2015 against 53.3% during the corresponding quarter (Charts 4 and 5).

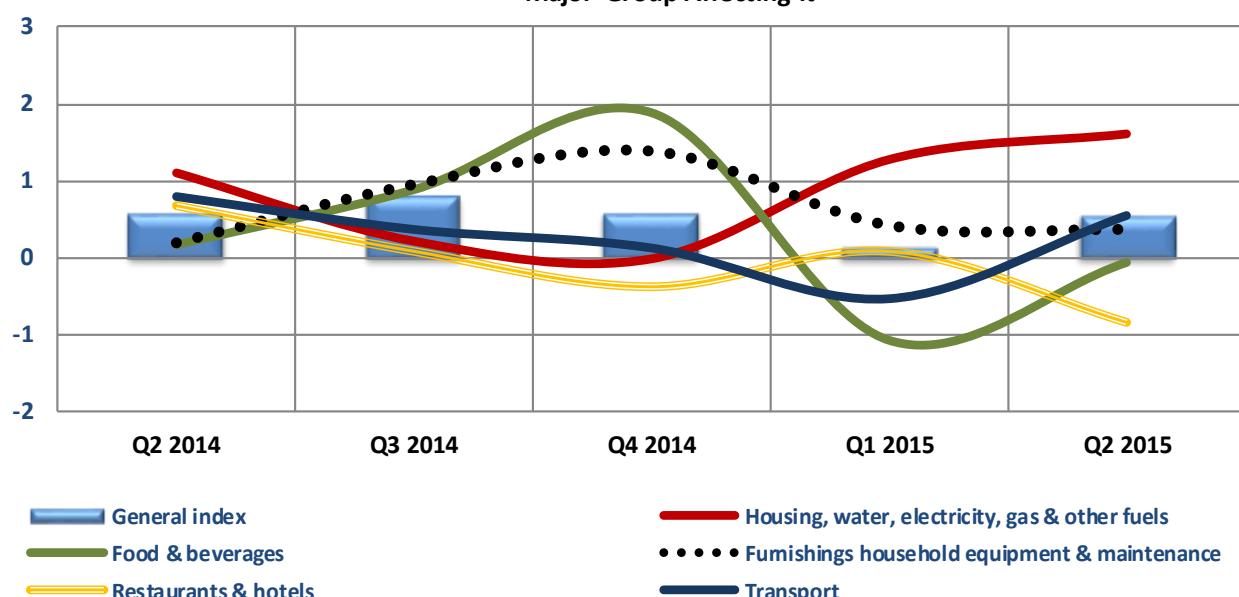
Wholesale Price Indices

The wholesale price index registered a q/q deflation of 0.8% and a y/y deflation of 1.1% in Q2 2015. It had recorded a q/q deflation of 1.2% in Q1 (Chart 6).

Wholesale Price Indices by Groups

The group of oils and fats registered the highest y/y increase in Q2. This group denoted an inflation rate of 2.9% y/y due to a rise in the subgroup of vegetable oils and fats by 3.9% during the same period. The group of food and live animals

Chart 3: Quarterly Inflation Rate of the General Cost of Living Index and the Most Major Group Affecting it



Source: Central Department of Statistics and Information.



Chart 4: Percentage Impact Of Major Groups On The General Inflation Rate (Q2 2014)

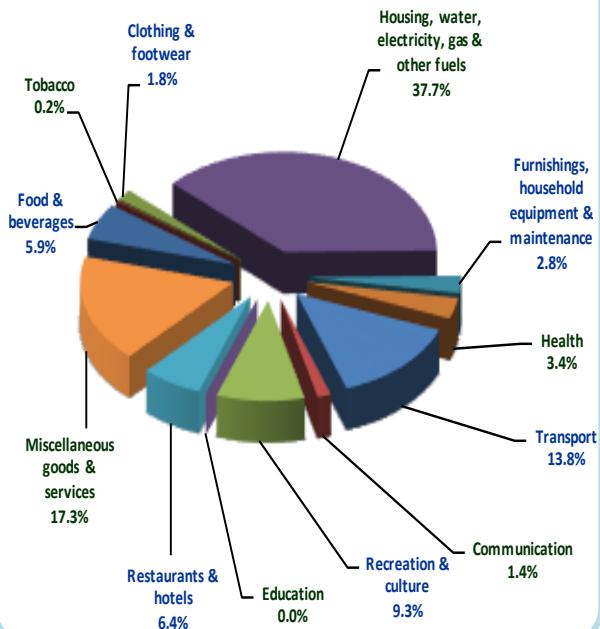
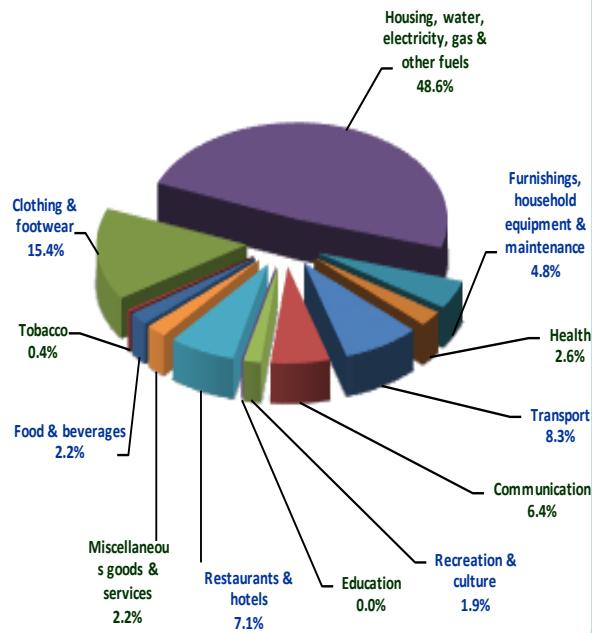


Chart 5: Percentage Impact Of Major Groups On The General Inflation Rate (Q2 2015)



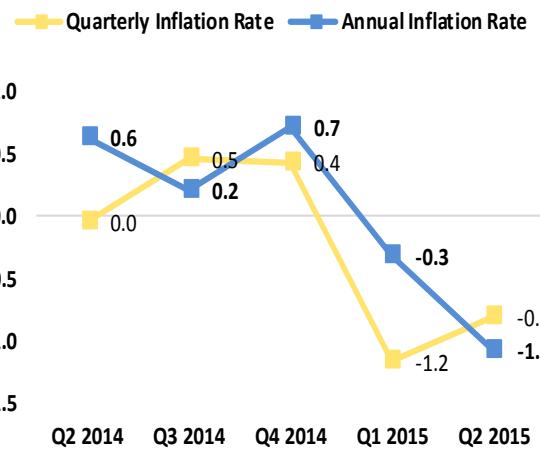
recorded the second y/y highest inflation rate of 1.9% in Q2, affected by an increase of 9.7% in the subgroup of fish and crustaceans. The group of beverages and tobacco came third with an annual inflation rate of 0.7% y/y in Q2 owing to a 3.0% increase in the subgroup of tobacco (Table 2 and Chart 7).

In contrast, the group of chemicals and other related materials posted the highest y/y deflation rate in Q2, with its inflation rate dropping by 8.7%. The group of other commodities ranked second with a deflation rate of 7.3%, followed by the group of machinery and transport with a deflation rate of 2.2% (Table 2 and Chart 7).

Cost of Living Index by Cities during Q2 2015

All Cities Cost of Living Index increased 0.6% q/q in Q2 2015. Najran posted the highest rise of 2.1%. Abha came next with 1.8%; Al-Bahah 1.6%;

Chart 6: Inflation of the Wholesale Price Index (1988=100)



Source: Central Department of Statistics and Information.



Jeddah 1.0%; Makkah 0.9%; Ha'il, Skaka, and Ara'ar 0.6% each; Jazan 0.5%; Al-Madinah, Al-Hufuf, and Buraydah 0.4% each; and Riyadh with the lowest increase of 0.3% (Table 3).

In contrast, the cost of living index for Tabouk registered the highest q/q deflation rate of 0.9% in Q2. Al-Taif and Al-Dammam came next with 0.4% and 0.3%, respectively (Table 3).

GDP Deflator

According to the latest data issued by the Central Department of Statistics and Information, the non-oil GDP deflator

increased by 16.8% q/q in Q1 2015. It posted a rise of 10.9% y/y (Table 4 and Chart 8).

The GDP deflator measures inflation rate at the macroeconomic level, which is different from the cost of living index which only targets final consumption. The GDP deflator, however, targets all consumption, investment and government sectors according to their respective contributions to the GDP. Therefore, the deflator is considered as an indirect measure of the change in the general level of prices. The non-oil GDP deflator is usually used to exclude the

TABLE 2: WHOLESALE PRICE INDEX (WPI)
(1988=100)

	Weights							(% change)	
		Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q1 2015	Q2 2015/ Q1 2015	Q2 2015/ Q2 2014
General Index	100.0	158.6	159.3	160.0	158.1	156.9	-0.8	-1.1	
Food & Live Animals	31.9	184.8	187.1	190.7	187.5	188.2	0.4	1.9	
Beverages & Tobacco	1.2	177.5	178.6	177.0	178.6	178.8	0.1	0.7	
Crude Materials	0.3	204.6	203.2	203.2	204.0	203.5	-0.3	-0.6	
Minerals & Fuels	10.1	186.3	186.3	186.3	186.3	186.3	0.0	0.0	
Oils & Fats	0.4	147.8	149.3	148.5	150.2	152.0	1.2	2.9	
Chemicals	9.8	209.3	209.9	214.3	206.9	191.2	-7.6	-8.7	
Manufactured Goods	26.2	143.4	143.9	142.9	141.8	141.2	-0.5	-1.6	
Machinery & Transport	13.4	143.4	143.3	142.8	141.0	140.3	-0.5	-2.2	
Misc. Manufactured Articles	6.4	138.1	138.4	136.4	136.4	136.3	-0.1	-1.4	
Other Commodities	0.3	260.7	254.6	254.8	242.5	241.7	-0.3	-7.3	

Source: Central Department of Statistics and Information.

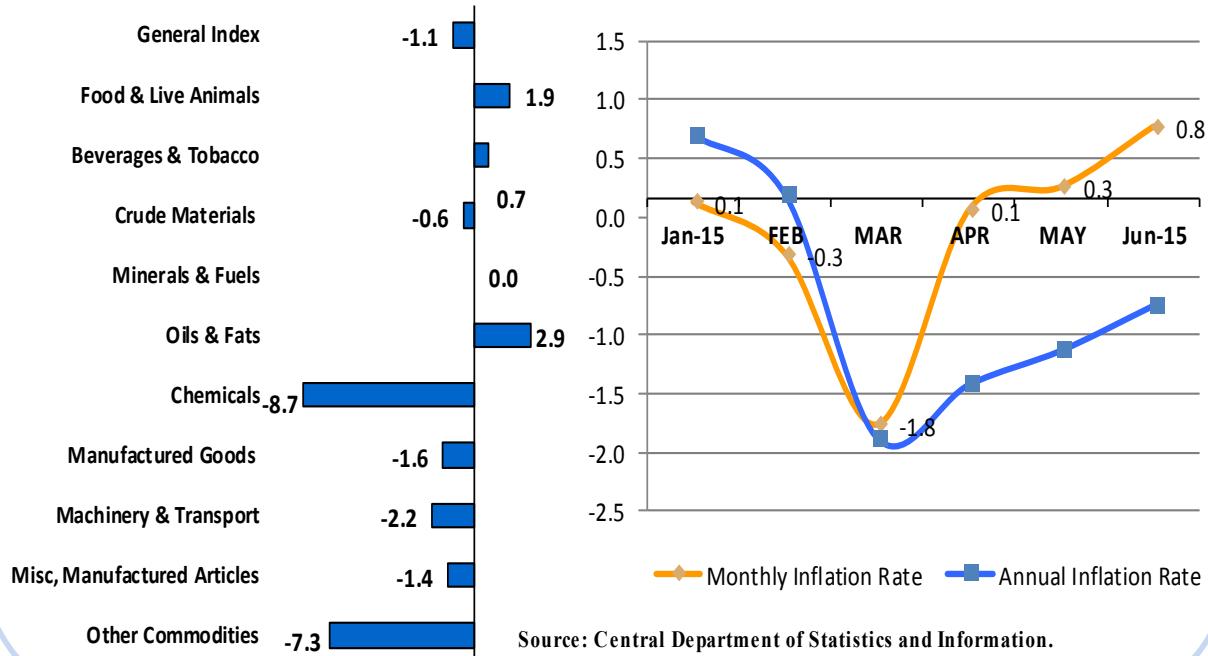


Chart 7: Inflation of the Wholesale Price Index by Main Groups

(1988=100)

% Change (Q2 2015/ Q2 2014)

Annual & Monthly Inflation of the WPI



impact of change in oil prices on the domestic economy.

The non-oil GDP deflator registered its highest annual increase in Q1 2015, rising by 10.9% from 2.8% in Q4 2014 (Table 4 and chart 8).

An analysis of the GDP deflator data (at constant prices for 2010) by economic activity shows that the activity of government services' producers recorded the highest rise of 39.9% y/y in Q1. The activity of electricity, gas and water ranked second with a rise of 9.4% for the same period. The activity of finance,

insurance, real estate and business services came next with an increase of 2.3% as a result of a rise in housing ownership by 2.2%. Then, the activity of wholesale and retail trade, restaurants and hotels ranked fourth, advancing by 2.2% y/y in Q1 2015.

On the other hand, the activity of mining and quarrying posted the highest deflation in the GDP deflator of 48.2% y/y in Q1 (Chart 9).

A comparison of annual inflation measures in the domestic market indicates that the inflation rate of non-oil GDP



Table 3 : AVERAGE COST OF LIVING INDEX BY CITY
(2007=100)

General Index	2013	2014	Q4 2014	Q1 2015	Q2 2015	2014/2013	Q2 2015/ Q1 2015	Inflation Rate
	2013	2014	2014	2015	2015			
All Cities Index	126.7	130.1	131.3	131.5	132.3	2.7	0.6	
Riyadh	129.9	135.0	137.7	138.6	139.1	3.9	0.3	
Makkah	122.6	126.9	126.9	128.0	129.2	3.5	0.9	
Jeddah	126.1	129.3	131.1	130.0	131.3	2.6	1.0	
Al-Dammam	135.0	133.7	135.0	135.0	134.7	-0.9	-0.3	
Al-Madinah	120.6	124.7	125.4	125.3	125.8	3.4	0.4	
Ta'if	123.1	127.2	127.5	127.5	127.0	3.3	-0.4	
Al-Hufuf	122.6	124.6	123.6	123.9	124.5	1.6	0.4	
Abha	120.3	123.2	124.9	123.6	125.9	2.4	1.8	
Buraydah	122.5	123.9	125.2	126.3	126.8	1.1	0.4	
Tabuk	119.5	128.9	121.9	121.2	120.1	7.8	-0.9	
Ha'il	125.7	127.2	126.8	128.0	128.7	1.1	0.6	
Jazan	134.1	142.1	146.7	146.8	147.5	6.0	0.5	
Najran	125.1	128.5	128.5	128.4	131.1	2.7	2.1	
Al-Bahah	125.1	130.5	129.3	128.9	130.9	4.4	1.6	
Sakaka	124.6	127.5	128.4	129.9	130.7	2.3	0.6	
'Ar'ar	114.5	120.1	122.3	124.6	125.4	4.9	0.6	

Source: Central Department of Statistics and Information, Ministry of Economy and Planning.

deflator registered the highest increase of 10.9% in Q1. The annual inflation rate of the cost of living index came second with 2.1% during the same period, while the annual change rate of the wholesale price index recorded a deflation of 0.3% during the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to the latest available data, total value of the Kingdom's imports stood at SAR 152.0 billion in Q1,

posting a decrease of 5.6% q/q. The Kingdom's imports dropped by 0.2% y/y in Q1.

China came at the top of the Kingdom's trading partners in Q1. The Kingdom's imports from China amounted to SAR 24.7 billion or 16.2% of the Kingdom's total value of imports in Q1, recording an rise of 31.2% y/y. The United States came second with SAR 21.6 billion or 14.2% of the total value of the Kingdom's imports with an increase of 6.9% y/y. Germany came third with SAR 11.0 billion or 7.2% of



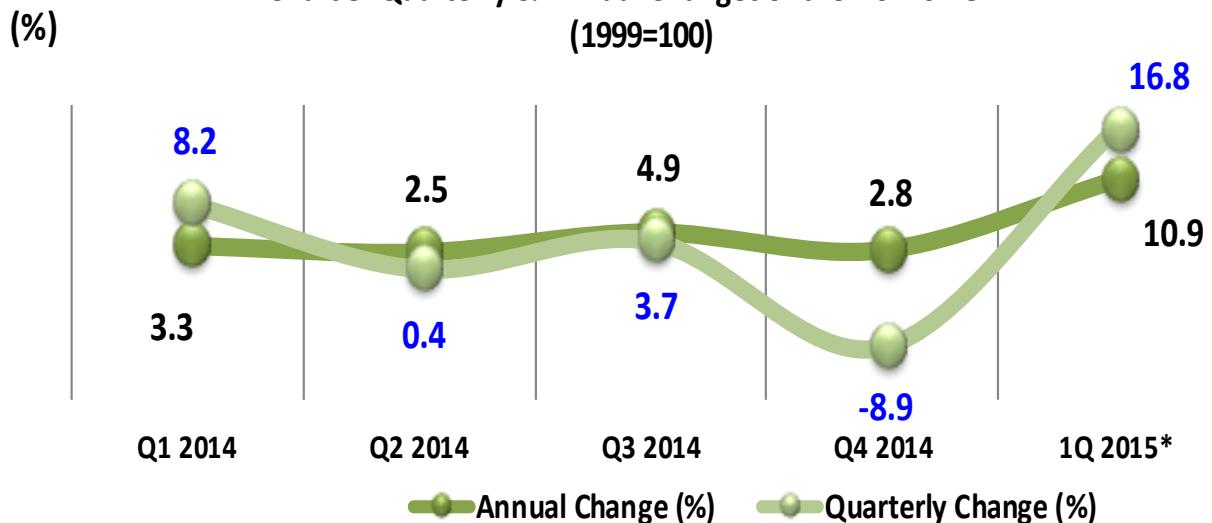
TABLE 4: GDP Deflator (2010=100)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	1Q 2015*	
GDP (Million RIls):						
At Current Prices	736,413	716,523	713,862	631,634	645,451	
At Constant Prices	612,416	595,312	604,001	620,149	627,370	
GDP Deflator	120.2	120.4	118.2	101.9	102.9	
Quarterly Change (%)	4.6	0.1	-1.8	-13.8	1.0	
Annual Change (%)	-1.1	0.1	-0.3	-11.4	-14.4	
Non-oil GDP (Million RIls):						
At Current Prices	410,475	391,079	409,535	394,846	470,061	
At Constant Prices	350,627	332,644	335,782	355,225	362,108	
Non-oil GDP Deflator	117.1	117.6	122.0	111.2	129.8	
Quarterly Change (%)	8.2	0.4	3.7	-8.9	16.8	
Annual Change (%)	3.3	2.5	4.9	2.8	10.9	

* Latest Available Data Source: Central Department of Statistics and Information.



Chart 8: Quarterly & Annual Changes of the Non-oil GDP
(1999=100)



* Latest Available Data

Source: Central Department of Statistics and Information.

the Kingdom's total value of imports, denoting a decline of 3.3% y/y. Japan came next with a rise of 4.4% y/y to SAR 9.0 billion or 5.9% of the total value of imports in Q1. The United Arab Emirates came fifth with SAR 8.9 billion or 5.9% of the Kingdom's total imports, posting a rise of 16.1% y/y (Table 5).

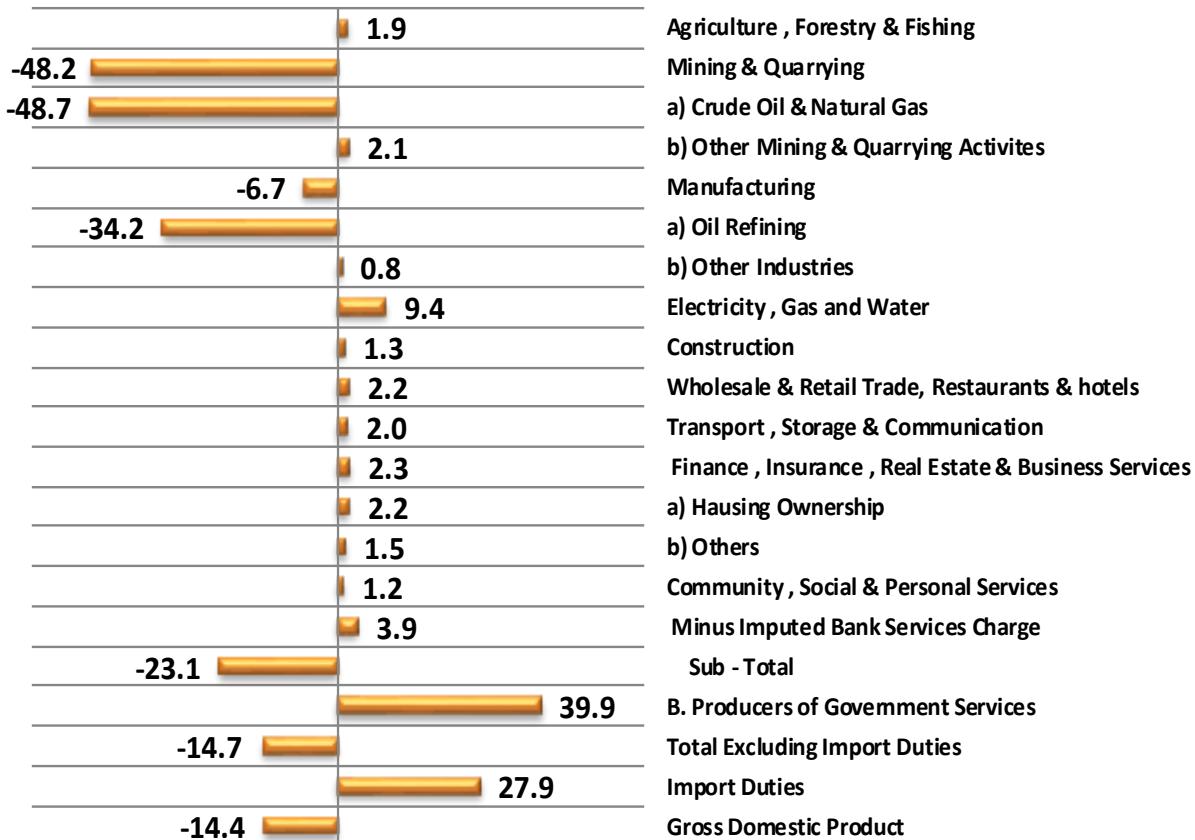
According to the latest available data, the total value of the Kingdom's imports in 2014 stood at SAR 651.8 billion. The order of countries from which the Kingdom imported was as follows:

1. China with a value of SAR 87.1 billion or 13.4% of the Kingdom's total value of imports. The annual inflation rate in China was 1.9% in 2014.

2. The United States with a value of SAR 84.7 billion or 13.0% of the Kingdom's total value of imports. The annual inflation rate in the U.S. was 1.6% in 2014.
3. Germany with a value of SAR 47.0 billion or 7.2% of the Kingdom's total value of imports. The annual inflation rate in Germany was 0.8 in 2014.
4. Japan with a value of SAR 37.3 billion or 5.8% of the Kingdom's total value of imports. The annual inflation rate in Japan was 2.7 in 2014.
5. South Korea with a value of SAR 32.3 billion or 5.0% of the Kingdom's total value of imports. The annual inflation rate in South Korea was 1.3% in 2014.



Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q1 2015 / Q1 2014 (%) Change



*Latest Available Data

Source: Central Department of Statistics and Information.

- India with a value of SAR 23.5 billion or 3.6% of the Kingdom's total value of imports. The annual inflation rate in India was 6.0% in 2014.
- France with a value of SAR 22.1 billion or 3.4% of the Kingdom's total value of imports. The annual inflation rate in France was 0.6% in 2014.
- Italy with a value of SAR 21.9 billion or 3.4% of the Kingdom's total value of imports. The annual inflation rate in

TABLE 5: Top Five Trading Partners by value of Imports (SAR Million)

Countries	Q1 2014	Q1 2015*	Change (%)
China	18809	24671	31.2
U.S.A	20227	21615	6.9
Germany	11398	11020	-3.3
Japan	8596	8978	4.4
South Korea	7726	8970	16.1
Total	66756	75254	12.7
Ratio to Total	43.9	46.3	5.5

*Latest Available Data.

Source: Central Department of Statistics and Information.



Italy was 0.2% in 2014.

9. Switzerland with a value of SAR 17.9 billion or 3.1% of the Kingdom's total value of imports. The annual inflation rate in Switzerland was -0.01% in 2014.

10. The United Kingdom with a value of SAR 17.2 billion or 3.1% of the Kingdom's total value of imports. The annual inflation rate in the UK was 1.5% in 2014.

11. Thailand with a value of SAR 13.9 billion or 2.1% of the Kingdom's total value of imports. The annual inflation rate in Thailand was 1.9% in 2014.

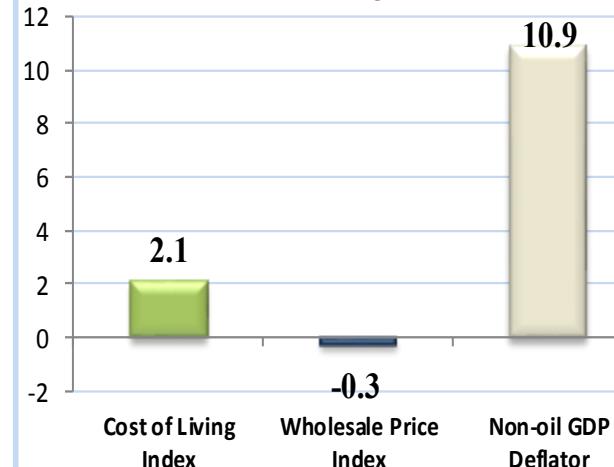
12. Brazil with a value of SAR 11.2 billion or 1.7% of the Kingdom's total value of imports. The annual inflation rate in Brazil was 6.41% in 2014.

13. Turkey with a value of SAR 10.8 billion or 1.7% of the Kingdom's total value of imports. The annual inflation rate in Turkey was 8.9% in 2014.

14. Vietnam with a value of SAR 10.0 billion or 1.5% of the Kingdom's total value of imports. The annual inflation rate in Vietnam was 4.1% in 2014.

15. Indonesia with a value of SAR 9.1 billion or 1.4% of the Kingdom's total value of imports. The annual inflation

Chart 10: Inflation Measurements in Q1, 2015
(%)Change



Source: Central Department of Statistics and Information.

rate in Indonesia was 6.4% in 2014.

Inflation Projections for Q3 2015

Inflation rates in Q2 were affected by the increase of 72.3% recorded in the group of housing, water, electricity, gas and other fuels; the group of clothing and footwear; and the group of transportation (Chart 5). The group of housing, water, electricity, gas and other fuels posted the highest influence of 26.5% on the general inflation rate in June 2015 (Chart 12).

The projections still show a stable domestic inflation rate as a result of the global fall in commodity prices, which may have a positive impact on the value of Saudi imports. Such impact is supported



TABLE 6: Top Fifteen Trading Partners by value of Imports 2014*

Countries	Value (Million SR)	Ratio To Total (%)	Accum. Ratio (%)	Inflation Rate (%)
China	87122	13.4	13.4	1.99
U.S.A	84730	13.0	26.4	1.61
Germany	47093	7.2	33.6	0.79
Japan	37306	5.7	39.3	2.74
South Korea	32336	5.0	44.3	1.28
India	23509	3.6	47.9	5.99
France	22132	3.4	51.3	0.62
Italy	21929	3.4	54.6	0.22
Switzerland	17953	3.1	57.8	-0.01
U.K	17271	3.1	60.9	1.46
Thailand	13907	2.1	63.0	1.90
Brazil	11225	1.7	64.7	6.41
Turkey	10867	1.7	66.4	8.90
Vietnam	9998	1.5	67.9	4.10
Indonesia	9126	1.4	69.3	6.40

* Provisional. Source: Central Department of Statistics and Information, and IMF.



by the rise in the purchasing power of the U.S. dollar, to which the Saudi riyal is pegged. Consequently, the general level of prices is expected to be relatively stable during Q3 2015.

The IMF projections for commodity prices indicate a contraction in the inflationary pressures on the main groups for 2015. The IMF's projections for 2015 show a deflation in energy prices by 39.4%, metal prices by 21.0%, food and raw agricultural materials prices by 15.6% and 9.5% respectively, followed by beverages prices with the least expected deflation rate of 5.6% in 2015 (Table 7).

As for the group of housing at the domestic level, projections indicate that the inflationary pressures remain

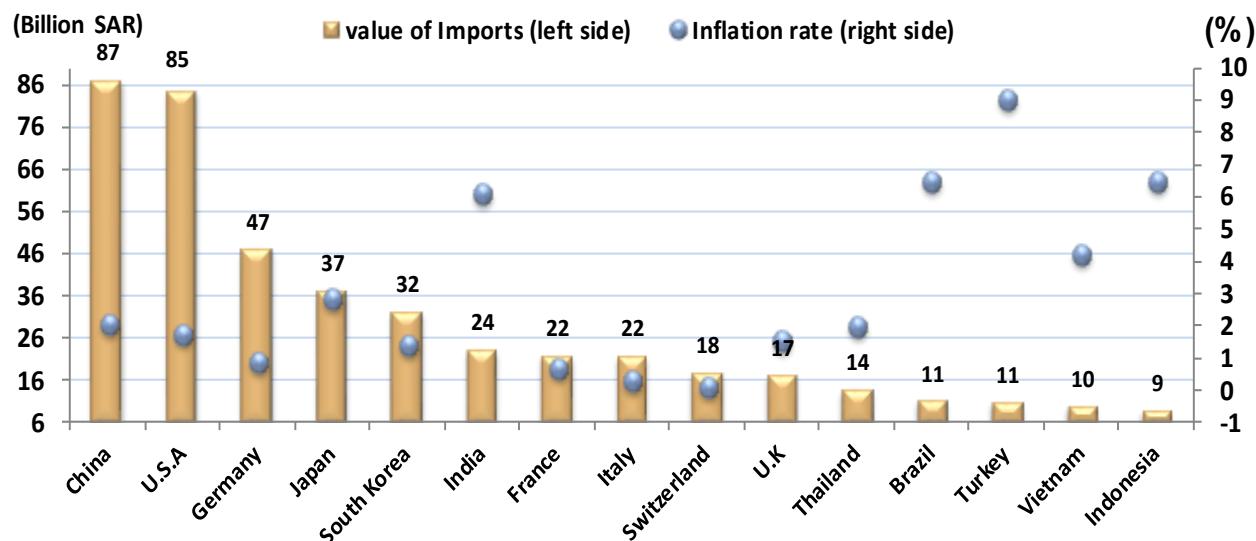
unchanged due to the efforts to promote supply of houses to all classes of the society. Thus, the general level of prices in the Kingdom is expected to be stable during Q3 2015.

Conclusion

The most significant results of the analysis of the inflation rates in Q2 in the Kingdom can be concluded as follows:

1. The annual cost of living index registered a rise of 2.2% y/y and 0.3% m/m in June 2015. It registered increases of 2.1% y/y and 0.6% q/q in Q2.
2. The group of housing, water, electricity, gas and other fuels registered the highest q/q inflation rates in Q2, going up by 1.6%. In contrast, restaurants

Chart 11: Top Trading Partners by Value of Imports 2014



Source: Central Department of Statistics and Information.



and hotels group recorded the highest q/q deflation rate of 0.8%.

3. The wholesale price index dropped by 0.8% q/q and 1.1% y/y in Q2 2015.
4. The group of vegetable and animal oils and fats recorded the highest annual increase rate of 1.9% in the wholesale price index. In contrast, the group of chemicals and other related materials posted the highest annual deflation rate of 6.4%.
5. According to the latest available data, the non-oil GDP deflator registered a rise of 16.8% q/q in Q1 2015. The GDP deflator went up by 10.9% y/y in Q1 2015.
6. According to the latest available data, total value of the Kingdom's imports stood at SAR 152.0 billion in Q1 2015,

falling by 5.6% q/q. The Kingdom's imports declined by 0.2% y/y in Q1 2015.

7. The projections still show a stable domestic inflation rate as a result of the global drop in commodity prices.

Chart 12: Percentage Impact Of Major Groups On The General Inflation Rate (JUN 2015)

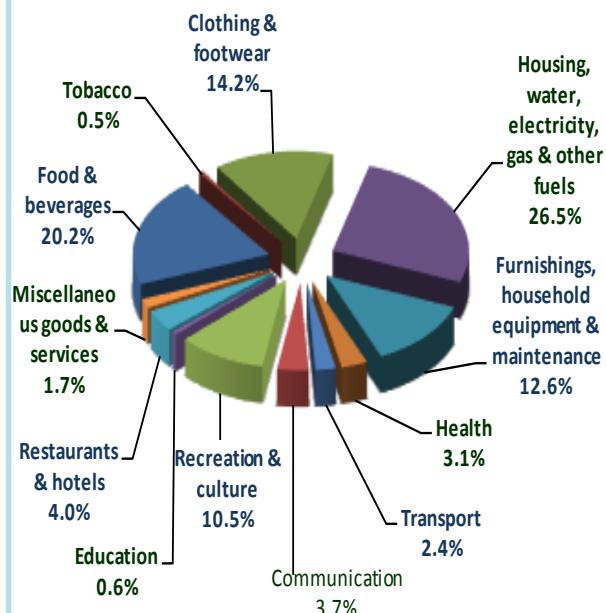


TABLE 7: IMF Commodity Price Index
(2005=100)
(Percentage changes)

Weights	Actual				Projections			
	2012	2013	2014	2015	2016	2017	2018	
All Primary Commodities	100.0	-3.2	-1.5	-6.2	-31.1	1.3	3.1	2.6
Food	16.7	-2.4	1.1	-4.1	-15.6	-2.8	0.0	-0.6
Beverages	1.8	-18.6	-11.9	20.7	-5.6	-1.7	0.9	-0.8
Agricultural Raw Materials	7.7	-12.7	1.6	1.9	-9.5	1.2	-2.4	-1.9
Metals	10.7	-16.8	-4.3	-10.3	-21.0	-5.3	0.9	1.1
Energy	63.1	0.7	-1.7	-7.5	-39.4	4.3	5.3	4.6

Source: IMF